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## THE BASIS OF WAR-TIME COLLECTIVISM

### 1. *The Central Principle*

How much of the near-socialism of this war is temporary and how much, if any, will be permanent? Some of the needs that have given rise to collectivist policies have been created by the war, but others have been merely revealed. The net result is to give social policy a definiteness of objective it has not had before in America, and this effect will not quickly evaporate. The need of a more coherent social organization is probably not less great in times of nominal peace, merely less obvious and less immediate, and it tends to be met by methods which, because they are more leisurely, involve less centralization and less compulsion.

The actual forces at work are manifold, and seem to defy any attempt to reduce them to simple formulas. There does, however, seem to be one principle which in one form or another is at work in such a surprising variety of manifestations as to suggest that it may be the dominant fact from which a true understanding of the situation can best proceed. War has given us an economy dominated by one supreme end so that all other things take rank according as they contribute or do not contribute to that end; and that end is something that can be defined in objective terms, at least in its economic aspect, so that the worth of services can be tested by an objective standard.

This testing can be done by the combined application of science and common sense, to an extent unknown in times of peace, and quite independently of the so-called "economic" valuations that appear in prices. These latter are not objective tests but subjective, since the ultimate fact is somebody's preference for one kind of gratification rather than another, and that is a matter of taste concerning which: *non disputandum*. In the sense in which the term is here used, calories and protein units are objective tests of food, but taste is not and price is not, so far as it merely records taste.

It is hard to express this transformation adequately in any one word. In a sense it means that our national life has become standardized where before it was unstandardized: is dominated by objective standards rather than by subjective preferences. It is standardized in the sense that we have furnished to us a touchstone for the measurement of all values, which gives a true standard in a way in which prices do not; and standardized in the

further sense that men and women become of value themselves in the new scheme of things not in the measure of their differing tastes, whims, or capacities for appreciation, nor in the measure of the purchasing power which they may have secured by fortune or a prudent choice of parents, but rather, at bottom, in the measure of elemental needs which all share in common and most of which a scientific expert can prescribe for better than the people themselves. The expert can standardize consumption. He can also standardize production, since the importance of quickly bringing all work into line with the best known practice is greater in the present emergency than the vaguer and more distant gain from our ordinary plan of letting each producer go his own gait. We will get both kinds of gain if we can, but at least we will make sure of the one that is actually in sight. In a word, our society, as an organization, knows what it wants and can draw up specifications. As a result, the social product of industry is no longer always reckoned through the accounting of private acquisition, and its function of social service is no longer incidental to profits, but has become the dominant fact, and independently determined.

In an individualistic democracy things are worth what they are worth to individuals; in a state of war the individual himself is worth only what he is worth to the state. What things are worth to individuals depends largely upon whether or not they give them a good time, and good times are, fortunately, not yet a standardized commodity. What the individual is worth to the state depends first of all on physical health, which is a perfectly definite thing, the same for everybody, and definable by the doctor in terms of the absence of any "abnormal" or "pathological" condition. Psychological well-being and willingness to serve also come into the calculation, and a certain amount of good time may be necessary on that score, but the individual is no longer, to the same extent as before, the final judge as to how much of other values he shall sacrifice to the good time he wants to have on any particular Saturday afternoon.

Another element in the situation is no less important. The economic life of a progressive and peaceful state is on the aggressive, while economic life in the time of war is sharply on the defensive. When a nation is deliberately doing its best to spend a third or a fourth of its national income on fighting, there can be little to spare for enlarging the bounds of economic consumption even for the most fortunate, if the resources of the nation

are wisely managed. And for the country as a whole, the result is a condition in which, instead of reaching out in the interesting and unstandardizable process of assimilating untried gratifications, the vital problem is to save the people from wanting the absolute necessities. Thus in any sudden need for retrenchment, in war or peace, our attention is necessarily focused on computable things and things which are the same for all, with variations in need which the scientific expert is best fitted to determine. In this somewhat expanded sense, then, war has given us a standardized economy in place of an unstandardized, or an economy of objective tests in place of an economy of subjective preferences.

## 2. *The Unstandardized Way*

When war demands that all the productive force we can spare be put into its workshops, these forces must be diverted from the pursuits of peace. If we follow the method of private enterprise in making the transfer, the government finds itself not merely paying men to make munitions and so turning productive forces in that direction, but, to just the extent that it pays extra high wages to munition makers, it places them in a position (of which they do not neglect to take advantage) to *bid with their own pocket books against the government by hiring as much labor as they can command to make for them the cigars, victrolas, pianos, and other unaccustomed luxuries which their high wages enable them to afford*. And this paradox is quite characteristic of the methods of unstandardized individualism when used to mobilize a nation's resources to meet a closely standardized or standardizable need.

If the free-exchange way of doing things is so absurdly organized that it tends partly to defeat its own ends in the fashion just indicated, why is not this fact just as obvious in peace time as in war? It may well be asked, indeed, just how and why the individualistic system is organized as it is in time of peace, and whether it is, as a matter of fact, just as unsuited to the highest efficiency in ordinary times as it appears to be, if left to its own devices, in time of war. It is a system for giving society the things that it wants, but what does society want? It wants what its members do, but they want different things, and are bidding against each other, some with enormous bidding power and some with almost none.

Society is willing to weight men's wants in whatever fashion

the distribution of purchasing power dictates, regardless even of how that distribution of purchasing power came about. If Smith can persuade people that they want just the particular kind of hat he knows how to make, he appears at the same time to be persuading society that it wants Smith, who is well nourished and well clothed, to have a victrola, in preference to giving the Jones family, who are under-nourished, a little more substantial food. On the basis of the happiness of the greatest number, where "every man counts as one," the men serving Smith are inefficiently employed. Theirs is not the primary efficiency that can be measured in this Benthamite fashion, but a derived efficiency: derived, that is, from the superior worth given by society to the person for whom they happen to be working. Moreover, "Society" would seem to be very easily persuaded, for such an all-powerful organism, and to be remarkably fickle. In time of peace, enlarged consumption seems to be the most effective end of economic life, and complete equality has not been adopted as an ideal. Smith's enlarged consumption is, then, a contribution to the end for which society is working. It is a bit of social success. In time of war, consumption is not an end of life, but a means to an end. Any unnecessary inequality, involving excess over the efficiency standard on the one hand and shortage on the other, is an evil, for unless ordinary goods are efficiently and equally distributed there will be less for the extraordinary needs of military supplies. Smith's extra consumption is a subtraction from the end for which society is working: it is a bit of social failure.

Consumers are habitually waiting to be told or persuaded what to want. Nobody can tell them absolutely, and all that can be done is to persuade them; a business carried on in lively fashion by thousands of agencies, each working against the others, and producing a net result far less valuable than the sum total of their individual efforts would lead one to expect. The consumer is exposed to much repetition of mutually inhibitory stimuli; and, in place of information he can trust, he must do the best he can with the light he can get from salesmen and advertisers, whose statements he is generally too canny to believe fully, even though they may in some cases be true.

Some things he does not have to pay for, if he is wary, and as a result such things fail to command a price proportionate to their worth, and so fail to enlist productive energy to the extent that would pay, for the community as a whole. Where things

have to be done for the benefit of the whole community if they are done at all, any one who voluntarily pays to get them done knows that he will do all the paying and every one else will benefit. In particular, if knowledge cannot be surrounded by a private property fence, the private incentive to produce it is weak; and if it is so fenced in, we are prevented from utilizing it to anything like its full capacity after it has been produced. Under the guidance of price, then, with its blind spots, and its somewhat fickle way of rating human beings, the productive process goes on and productive sacrifices are incurred.

Most of these sacrifices have to be paid for, for it is the avowed business of law to see that people's interests are not "unduly" sacrificed without consent. This fact tempts one to say that the process of production is worth what it costs to all those who engage in it, just as the business enterprise itself gets a money income at least equal to its money outgo and shows a balance of net income on the books. To be sure, this idea of a net surplus of gain over sacrifice may seem somewhat strange in the case of a family which is going to pieces because the father is disabled for work and the mother is undermining her health and neglecting the upbringing of her children, working in a vain effort to make both ends meet. The cost of her work is disastrously great. If she did not work, perhaps the disaster would be even greater, but what kind of surplus can be made out of this bookkeeping? The family has to choose between two alternatives, either one disastrous; but is that the only way the problem can be framed? Is society limited to these two alternatives in its dealing with the problem? Not at all. Its cost accounting has a different baseline from that of the individual for it can, if it chooses, save the family without forcing the mother out of the home and ruining her health.

So much for the costs that cannot be incurred without consent. Some costs are of a more elusive character, and slip through the meshes of the law. As a result, the process of competitive selection approves as "efficient" in the business sense many forms of parasitism which mean national inefficiency. Even aside from parasitism, it is a mistake to suppose that the efficiency of a nation is the sum of the efficiencies of its members. Each member is one hundred per cent efficient if he does the best his conditions make possible, but the conditions determine how good that "best" shall be, and they are the task of society. Business competition

ensures a close approximation of individual achievement to the possible, but does not guarantee such underlying conditions as to make the possible itself a maximum.

Why do we tolerate the system which this impressionistic and one-sided sketch characterizes? Is it merely through inertia? If so, we are at present going through the greatest inertia-overcoming experience of modern times. But that is not by any means the only reason. The measure of the market has prevailed in spite of being an imperfect standard of social value and social cost, largely because, imperfect as it is, we have had no definite substitute. Our society has not, as a unit, had independent knowledge of what it wanted, and so has taken the market's word as the measure of the worth of different gratifications and the efficiency of different ways of producing them. It has certainly not wanted a stereotyped economy, but rather one moving on to things whose nature no one could predict.

### *3. Summary of the Effect of War*

Under the stress of war, the fear of losing the elasticity necessary to future progress no longer deters us from making the biggest gains immediately in sight. These lie, at any time, in eliminating the definite wastes and duplications of competition, filling with direct public services the gaps due to the blind spots in the competitive system, and generally attacking the shortcomings which have just been indicated. Thus we see aeroplane companies exchanging patents and railroads pooling their competitive interests and insisting on full loading of cars where competitive forces had left the requirements so liberal as to be wasteful in time of shortage of equipment. We are putting all essential industries under the supervision of federal boards in search of an efficiency greater than the efficiency of competition. Mr. Hoover is interfering, and German food and clothing regulations are interfering still more, with the individual's supposed bent for organizing his consumption on the basis of maximum psychic income.

And as a result of all such departures, far from sacrificing the possibility of growth of efficiency in future, we are rapidly putting ourselves in the way of acquiring, from a few years of war, more genuine experimental knowledge of the conditions of economic efficiency in the large than we could probably have gained in as many decades of individualism, business competition, and the ventures in social-economic experimentation that can be argued

through legislative assemblies in time of peace. Much of this knowledge will be of permanent use if we can learn to employ standardization within its proper field. This is far more limited in time of peace than in time of war, but is rapidly increasing. Indeed, for many of these experiments the present war is merely the occasion, and the true determining cause is nothing less than the standardizing influence of the progress of science itself, and of scientific production.

#### *4. The Socialization of Knowledge*

As the war rolls over us, and wakes us to a sense of the necessity of doing the impossible, we suddenly become aware that we have resources of knowledge that are comparatively little utilized. Consumers for the most part order their diet in sublime ignorance of true food values, and wage an unequal contest with the swiftly changing arts of adulteration and imitation. The knowledge of qualities is there, but the consumer does not possess it, and it is out of the question that he should get it by his own unaided efforts.

Indeed, he has never guided his purchases by his own unaided efforts. Nowadays his guidance requires mobilized knowledge rather than unmobilized habit, and knowledge of a detailed scientific character about a multitude of things, such as only specialized researches can supply. The consumer has not hired these things done for him, partly because he did not know how badly he needed them, and partly for the reason, already treated, that knowledge is not appropriable like the ordinary commodity. The present wave of public education into the mysteries of proteins and calories, then, is but a phase of an inevitable development, due to science and scientific methods of production.

Producers, as well as consumers, suffer from imperfect utilization of the existing stock of knowledge of their trade. A certain firm recently sent representatives to study the methods used in building wooden ships, and found that some were good at one part of the process and some at another, but none had methods of high efficiency throughout. They estimated that by combining the best methods found for each separate part of the process they would be able to turn out a ship in a fraction of the best recorded time. The standardization of methods, combining the best that is found anywhere, can not only raise the average efficiency of industry but even show the most efficient how to improve still farther by strengthening his weak points,



But it does not necessarily follow that all industrial knowledge should be pooled. The present channels for interchange of knowledge are more efficient between producers than between consumers, and complete pooling might injure the incentive to private inventiveness in the future. What is needed here is a discriminating policy. For the immediate emergency any amount of pooling that can be secured will be clear gain, and will have no bad effects on future progress. After the war, if the socializing of trade knowledge is to be continued in any industries, there will be need of a more formal system fortified with more substantial inducements. Meanwhile the experience of the war, if properly utilized, will be furnishing valuable testimony as to where the greatest gains are to be had.

As these words were being written, the morning paper arrived, with the announcement of a new American aeroplane engine, said to be as good as the best foreign engines, and combining many of their best features, but capable of being turned out in large numbers by American standardized machine-process methods, rather than with much hand labor of many artisan-technicians, as abroad. This achievement seems to have been made possible chiefly by the pooling of engineering talent and of all available designs, methods, and trade secrets, under an incentive strong enough to spur men to work twenty-four hours a day.

What does this prove? It proves that there are great unused possibilities for immediate advancement in private industries where patents or secret processes are held, or where local producers are out of touch with each other's achievements. It gives one a sense of the sudden liberation of pent-up forces that reacts into sheer exasperation at the obstacles of ignorance and inertia which hamper us, and the walls of secrecy and proprietary prohibition which we erect at such pains and guard so sedulously. It furnishes a prospect of continued progress, also, but chiefly through the testing and coördination of ideas and devices worked out under the spur of the most active of all forms of competition at the fighting front.<sup>1</sup> In other words, it does not prove that all competitive incentives can be discarded and all competitive barriers broken down.

<sup>1</sup> "The standardization of the new engine does not mean there will be no change in it during the war. There will be continuous experimentation as new types and improvements develop at the front and new ideas are born of the war emergency." Statement of Secretary Baker on the new "Liberty Motor," as reported in the *New York Times* of Sept. 13, 1917,

There will probably be no final permanent solution of this question, because our industrial system will never reach a completely static condition. The period that will follow the closing of the war, however, will be neither wholly socialistic nor individualistic in the old way, and it may be possible to predict some of the things which will decide which are the best fields in which to continue with the socializing experiments to which the war has given rise.

There are certain fields where the progress that is due to the spur of private incentive is hardly notable enough and rapid enough to be worth keeping, if to keep it we must sacrifice any experiment which has a prospect of showing really substantial results. These backward fields are chiefly the ones in which business is in the hands of many small producers, or carried on in small places with the aid more of handicraft skill than of mechanical devices and engineering or scientific methods. Very small producers cannot afford to experiment extensively, nor to study the methods of other producers in the attempt to standardize their own, and it would be a ruinously wasteful duplication of work if they were to do so as individuals. Extremely small producers cannot even be expected to be in a position effectively to organize themselves into associations to do this sort of thing for them, although that is one way in which the dilemma may in many cases be solved. Another solution, far less desirable, is the extinction of small producers by larger ones who can afford the study and investigation required to standardize efficiency.

This amounts to sacrificing the small producers, not because they cannot be as useful or perhaps more useful than large ones in the actual work of production, but because they cannot organize and standardize their work as well as carry it on. It would amount to sacrificing them because they cannot be as efficient as larger producers in fulfilling the particular combination of functions which the present system requires of them, when a slight redistribution of functions might leave them fully able to hold their own and to prove their right to survive by the quality of service rendered.

If the standardizing can be done for them by some large agency, they may prove, on account of their more direct contact with the details of the business and the more intimate relation between owner, workman, and consumer, to be better adapted to handling the industrial problems which hinge on these unstandardized and

very human relations. For example, if systems of accounting, stock keeping, and organization of space can be standardized for the various kinds of retailers by studies made on a large scale and market information secured by some large-scale agency, the small retailer will have presented to him the means of equalling the advantages which the chain store now has over him in these matters, and he need not spend his time and energy on the kind of problem at which he is necessarily working at a very heavy disadvantage, but can spend it all on the sort of problem which no standardized system can solve for him, studying his customers' tastes and adapting his policy to the peculiarities of his local market.

If local producers are so far out of touch with each other that they make no attempt to imitate each other's strong points, but each continues in his own groove, satisfied with the methods he has developed himself and with his achievements in those parts of the process in which he himself may be superior, this fact itself is evidence that the competitive stimulus is not strong enough to do the work we rely on it to do. In such a case one need not be afraid of the weakening of competitive stimulus which would come from pooling the knowledge of the trade, for there is so little stimulus to lose. There would be no grave danger even in going to the length of standardizing the process and trusting to coöperative enterprise, or the "instinct of workmanship," or even to governmental experimentation, for the means of future progress.

Besides those cases in which private incentive is notably weak, there are cases in which a coöperative or public agency is equipped to do the work notably well. Where the chief thing needed is accuracy, and the most important industrial quality is disinterestedness, there is little need of the stimuli of ordinary industrial competition, and they may, indeed, be fatal to the peculiar reliability of result that is wanted. In the case of employment agencies, for example, we are rapidly finding out that the disinterestedness of a public agency is a far more essential quality than any of the good points which private enterprise may have in this field. This is but another form of the socialization of economic knowledge. The diffusing of information about prices is an important service which may in some cases be well rendered by private enterprises, but is by no means certain to be rendered at all unless some public agency takes the responsibility.

One clear case of this is the work of testing things where standardized methods of testing are available. In other words, it is the

sort of work which the present federal Bureau of Standards is doing, with an ever widening scope. The further work of establishing standards of performance, based on the best existing practice, or on the combination of the best single elements to be found in existing practice, into a new standard better than anything actually found—such work as this, in well-selected fields, is clearly a proper function of government in the present state of industrial and scientific development.

### 5. *The Social Minimum*

Prohibition and rationing policies are but the wartime form of a policy which has been becoming more and more clearly formulated in time of peace: namely, what we have come to know as the policy of the social minimum. In one way or another the principle by which purchasing power carries with it power over all the earth's resources, even to the shutting out of some from the material means of opportunities to become efficient; this principle is limited, or supplemented, by the principle that some things are so important that society cannot afford to leave them at the mercy of this rule of distribution, but must see to it that they are distributed under a system in which every one counts as one. The minimum that is thus furnished is, in its most important aspect, a minimum of opportunity—opportunity to maintain health, to acquire knowledge, to know beauty, and to mobilize one's abilities to the best advantage.

There are two ways in which the proportion of society's whole resources that goes to the furnishing of this minimum may become greater, and the field of individualistic distribution be correspondingly diminished. Any great loss or catastrophe means that there is less to spend on anything beyond the necessities of life, and less surplus, even of these necessities, above the bare minimum necessary for continued existence. It is only when the unaided individual has at least a fair chance to be able to take care of himself that the free exchange system can become dominant at all. A great fire, an earthquake, or an invasion seems automatically to put the other rule in force; and we fall without question into the system of distributing food and blankets to rich and poor alike and making every refugee wait his or her turn for railroad accommodation, regardless of what fabulous prices some may be willing to offer for tickets.

But there is another way in which the scope of this principle

is enlarged: by a force that operates more quietly, more constantly, and all-pervasively. The more we find out about life and how to make things useful, the more things do we find to be necessary to fully efficient living and working. Material conditions which used to be regarded as matters of taste are found to be possible sources of health or disease, physical or mental. In a sense, since everything in the environment has its effect on man's development, perfect equality of opportunity demands equality in all possessions and all services received. But be that as it may, what we have at present is a compromise system, in which individuals get special rewards in the shape of special purchasing power which they are nominally free to use as they will, but on which there are certain definite limitations so that their power to buy more than others is by no means as great as if the whole of a man's gratifications were left for him to buy for himself in the market.

Economic inequality is being attacked in two ways which we may call extensive and intensive. Its extent is attacked by progressive taxation, while the range within which superior purchasing power gives superior power to satisfy wants is limited by the policy of the social minimum. Beginning with such obvious things as poor relief and free education we go on to free lunches for school children, free amusements, free public parks and playgrounds, and public employment agencies; while the handling of the public domain under the Homestead act furnishes a fine example in which a commodity which stands for the basic opportunity of all is distributed in a way which virtually disregards purchasing power in the ordinary sense, and instead makes the price consist chiefly in the willingness and ability to use the opportunity presented. It is an effort-price; such a price as the poor man can afford to pay and the rich man cannot, rather than the ordinary money price which the rich man can afford to pay and the poor man cannot.

From what has been said it may be inferred that the principle underlying the rationing of a population through bread tickets or similar devices is no new thing, and that as long as the world feels the pinch of shortage in foodstuffs, it will continue some form of public control so that waste may be prevented and no class consume so much as to involve the serious undernourishment of others. The methods of securing the social minimum are various. Those who cannot afford it may have it supplied to them

direct by some public agency, and the rich may be left free to spend their incomes as they will, subject only to the competition of the government itself in buying the things which it distributes. Or, without going as far as this, the price may be put artificially low and the inevitable excess demand from the well-to-do may be kept within bounds by limiting the amount which any one person is allowed to buy. This is the familiar "bread ticket" policy, and it involves an amount of supervision which has not hitherto been found possible in ordinary times, while even in time of war the growers of foodstuffs are themselves to a considerable extent immune.

Another method which has the effect of limiting the power of money in private hands to turn the productive resources of the nation away from the production of the necessities into the making of luxuries is the method of controlling production directly and of giving priority to those demands which represent the most urgent social necessities. Builders of ordinary houses may be unable to get the materials because priority is being given to the needs of military cantonments and the housing of quasi-mobilized armies of munitions workers, while steel is being taken for guns, ammunition, and ships, and structural forms so adapted that makers of building material can themselves turn to ship building. Perhaps the most far-reaching single agency of all for this purpose is our transportation system; and the shipment of foodstuffs before luxuries and things of immediate need before things of a postponable character is, among other things, one of the most effective means of assisting in the safeguarding of the social minimum.

It is impossible now to predict how much will survive of the war policy directed to this end. The more extreme forms of interference with personal liberty certainly will not at once become permanent parts of our life. On the other hand, those forms of direct public service which help to secure the social minimum without obvious interference with personal liberty will, beyond a doubt, be much stimulated. Of control through the producers themselves, there may well remain some system by which trade associations are recognized as performing a number of quasi-public functions in voluntary coöperation with government bureaus in policies looking, not merely to the elimination of waste in production itself, but toward the checking of trade practices which make for waste on the part of the consumer and the stimulating

of trade practices which tend to urge the consumer in the direction of economy.

### *6. Advertising vs. Social Guidance*

The consumer certainly needs the service which at present he gets through the channels of advertising: namely, the guidance of purchase under a system in which purchase is the guide of all economic effort. He needs to have goods and services brought to his attention in an enlightening way and to be informed of their good and bad points so that he may spend his money wisely. But when one stops to think of the various things the government is now doing, one cannot fail to realize that it is rapidly furnishing a set of agencies for economic guidance: that is, for doing just the thing that advertising does, though on a wholly different basis and much more economically. Its campaign for the enlistment of housewives in an intelligent use of food, its testing bureaus, its systems of priority, of price fixing, and ultimately, perhaps, of general control of consumption, are virtually paralleling the social service of advertising in this field with a service which is not exactly its equivalent, but is better adapted to war-time conditions. The corollary is sufficiently obvious.

Perhaps advertising will shrink automatically as businesses feel the pinch of diminished demand and increased cost and find their market, under the stress of war conditions, suddenly becoming unresponsive to the ordinary tactics of salesmanship. Or, perhaps some less far-sighted producers may, for a time, spend more than usual on advertising in order to strengthen the dwindling demand, utilize the unused capacity of their plants, and come as near as possible to preserving "business as usual." It remains to be seen. Should we, in a society forced to sharp economy, maintain private advertising and salesmanship on the ordinary peace-time scale to which America is accustomed, while the government is itself guiding industry directly and at great expense? Such a duplication would seem to be little short of criminal wastefulness.

This state of things will not be permanent, but it should have some effects of permanent value. The government can exercise economic guidance at present because it does not have to ask first "Does the consumer want this service rendered?" but can confine itself chiefly to the question "Will this commodity render the service better than any other?" When more normal times come we can afford again to pay more attention to the question of

what kinds of services the consumer wants; and the unstandardized methods of advertising may again become suited to this state of things. But meanwhile there will have been a wholesome object lesson in the value of disinterested information such as comes through public or coöperative channels, and if it shall happen that the work of advertising and salesmanship of the private sort is cut down during the war to a fraction of its present amount, we shall have had another wholesome object lesson in the discovery that little of any substantial value to consumers or to producers in general has been lost. The result may well be a determination, possibly exercised through the channels of trade associations in co-operation with the government, or possibly in other ways, to practice in the future a mutual limitation of armament in advertising warfare which will lessen the waste without sacrificing any valuable services that are now being rendered.

#### *7. Control of the Rewards of Industry*

Free contract as a method of mobilizing industry is best adapted to certain conditions which are, for the most part, fairly well realized in times of peace. To discover in what direction the social will is going to move industrial effort we wait for the social will to express itself through demand in the market. The changes that are continually going on are not so large as to be revolutionary, at least for large industries. Under such conditions, the individual has, in the first place, a fair chance to take care of himself in spite of the shifting environment, so that those who come to grief are a minority. In the second place, since the changes are comparatively gradual, they do not revolutionize rates of wages or the rates of return to industrial capital. Indeed, the traditional economic theory goes on the assumption that an inducement, however small, will attract labor and capital from any part of the market to any other part.

In time of war the movements called for are so huge in quantity and the demand for speed so urgent, that if it were left to the incentives of increased prices and increased wages to bring about these changes, this could only be done at a huge increase in the returns to labor and capital, with the result that, as we have already seen, the increased purchasing power in the hands of those who are in the growing industries is used virtually to bid against society. In such a dilemma the motives of patriotism and the machinery of direct public control can come to the rescue, and



one of the most pertinent solutions is the enlistment, voluntary if possible, of those engaged in industries which serve the purposes of the war and of others who can thus be diverted into those industries.

This does not mean starvation wages, but it does mean that wages in general would be governed by the amount necessary to maintain efficient service, health and reasonable happiness, rather than by the scarcity premium put upon a certain grade of labor by a sudden increase in demand. The bottom fact is that we are faced with the task of working out a collective efficiency-wage system instead of a competitive efficiency-wage system, and to make an intelligent beginning we must get rid of all preconceptions as to whether the two do or do not necessarily correspond.

The collective efficiency-wage is the wage necessary to enable and stimulate an output of efficiency: the competitive efficiency-wage is the wage necessary to get and hold efficiency in one particular spot, against the inducements offered elsewhere. Where war results in denying the workman full freedom to leave his job, as has been the case in England, it is plain that the competitive principle is no longer in full force. The competitive system has a strong tendency to make differences in pay equal to differences in the exchange value of the product. On the other hand, while the collective system requires that superior work shall earn superior pay, there is no exact equality needed between the differences in output and in pay, and the price measure is not to be accepted as an adequate test of superiority in output, for reasons some of which have already been dealt with.

The lowest wage paid is higher under the collective than under the competitive principle, for the collective loss of efficiency due to low wages does not fall in its full extent on the employer who is responsible, being partly neutralized so far as his pocket is concerned by the low wages themselves, and partly diffused by the shifting movements of the laboring population from employer to employer and from industry to industry. The loss from overlong hours is similarly distributed. The collective way of estimating efficiency is by the output per unit of human raw material utilized. The competitive way of estimating it is by the output per dollar expended, and there may be as much gain in paring the reward of the laborers to the competitive minimum as in lessening the amount of labor power that is needed to accomplish a given task. Yet one method may lessen collective efficiency if carried far, and the other increase it.

The piece wage of competitive efficiency is a progressive rate, since the faster workman reduces the overhead cost per unit of product. At flat piece rates, slow workers are relatively unprofitable. The collective system, on the other hand, may call for a regressive piece rate in order to prevent the laborer from overworking in the effort to earn the exaggerated premium that is offered. The present system is a combination of both principles. In complex industry it is impossible to calculate the exact economic worth of all differences in performance, and the most mathematically ingenious system of differential wages merely undertakes to see that each element of superior efficiency commands some corresponding premium.<sup>2</sup> The pure competitive forces are further modified, partly by regulation, and partly by the increasing realization on the part of employers of the wastefulness of a large turnover of labor, which causes them to treat their relationship with labor more and more as one of stable status, with mutual responsibilities looking to the future and determined by this status rather than by the letter of the contract. In this respect evolution is reversing the sociologic dogma, and this reversal is in the line of progress for the future, as far ahead as the future is worth trying to predict and to plan. The war will thus stimulate a movement which is destined to be a continuing feature of our economic life.

The difference between the collective and the competitive supply-price of efficient labor is, however, only one phase of a broader one involving all the factors of industry. Society is getting a chance to test its power as a monopoly buyer of all these factors, for if it is willing to exercise the necessary force it can free itself from the need of paying capitalists and owners of natural resources the exchange value which these factors would have in competitive industry. It need not pay for shipbuilding capital enough to attract it away from building houses, and it may not prove to be necessary even to pay the price that would be required to stimulate a given amount of saving in ordinary times, for it can control not merely the rival opportunities in different fields of investment but also the outlets for spending surplus income.

The principle of priority for necessities, applied by boards

<sup>2</sup> Mr. G. D. Babcock, in *Industrial Management*, January, 1917, page 539, sets forth an extremely complex formula of this character which has been successfully used.

which have power enough to decide the destination of all the elementary raw materials, cannot fail to reduce the supply of luxuries, while the control of prices would prevent the producers from absorbing as much of their customers' income as before out of a lessened volume of business. If pleasure automobiles or gasoline to use in them for pleasure trips, or similar luxuries, are not to be had, more money will be saved at the same rate of reward. This represents a genuine condition on the other side of the Atlantic, and until our own country approximates this condition we may well feel that we have not yet begun to fight, financially. Through such virtually enforced saving society may be able to get a given supply of saving cheaper than the "normal" supply-price for that amount. In a word, we have the opportunity of testing to what extent the powers of society as a monopoly buyer exceed the powers of its members as competitive buyers, and to what extent supplies may be forthcoming on better terms to society than to its members.

### *8. Conclusion*

This paper proposes that government shall help employers to be more efficient producers of goods for society's uses, and it is one of the greatest absurdities of the present industrial situation that proposals looking to this end should need defense. The feeling that government must not help industry because it must not help the wicked capitalist, is essentially a doctrine of political sabotage. Far from being true, there is every probability that without a more developed policy of assistance to industry, the attempts to restrain the wicked capitalist can never be thoroughly successful. A government coöperating with business could command in turn an attitude of responsibility which would have back of it the sense of fair play that is so dominant a force in business ethics. And in this way the most elastic and vigilant of all sanctions could probably be brought into play in support of the demands of government for conduct which shall serve the public in ways not covered by the obvious mutual give and take of equals on which the traditional morals of business seem so largely to rest.

Perhaps it is not worth while at present to speculate much upon the precise form of organization in which the ideal condition may be embodied, and the election of a business entrepreneur by those who deal with him may be recognized for what it is—an election to an important public office by a method which sifts out ineffi-

ciency far more certainly than do the political primary and the ballot. But no solution can be worthy of the name if it is so weak as to be afraid to render assistance to business where public or collective action is needed to make business truly efficient. In the matter of regulation, it is safe to say that the existence of objective standards by which to judge the things society wants, as distinct from the subjective standard of price, tends to make an increased degree of social control tolerable and wieldable by furnishing a considerable safeguard against the danger of degenerating into tyranny or log-rolling. Lest the writer be guilty of preaching a dangerously naïve optimism, he hastens to add that not everything that calls itself a scientific or objective standard merits the name, and that genuinely objective standards are difficult and laborious to achieve. F. W. Taylor believed that the standardizing processes of scientific management would be a solvent for individualistic strife in industry, but his expectations have hardly been justified. However, the system may have more possibilities in the hands of an organization somewhat more democratic than the present management of industry. What has been said may be taken as indicating the direction in which standardization tends, rather than the extent to which it will go.

Without science only despotism can be coherently organized. With science at its disposal, democracy has at least a chance. There are some who seem to hope that "making the world safe for democracy" means relieving democracy of the need of achieving an efficiency approaching that of autocracy.<sup>3</sup> If there is any danger of this hope being realized, it is of the utmost importance to search for all possible antidotes, and to hold fast all the lessons the war can teach us as to the means of permanently increasing the efficiency of communities in getting what they, as communities, desire.

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<sup>3</sup> See especially Mr. Fabian Franklin in the *Atlantic Monthly*, August, 1917, p. 276.